Recession in Some Dampens Newspaper

Newspapers aren't exactly buying Chicken Little's belief that the sky is falling, but they are anxious about the black cloud that has settled over the industry from coast to coast.

There are some notable exceptions among newspapers amid the picture of gloom and at least one notable dissenter among analysts, but most observers say newspapers have fallen into a real economic funk. While the federal government is straining to avoid the "R word," recession, media analysts point to these conditions hurting the newspaper business:

- Oil-price hikes resulting from the Iraqi crisis
- The bankruptcies and mergers in the retail industry
- The savings and loan debacle
- Federal budgetary woes
- Sluggish employment growth
- Declining housing starts
- And, certainly not the least of adverse factors, jumpy consumers.

Regardless of the debate over whether the nation has entered a recession, few industry observers mince words when speaking about the newspaper business *per se*.

"The industry is clearly in a recession," says Miles E. Groves, vice president of economic and media analysis for the Newspaper Advertising Bureau.

Ad linage has plummeted from the early-1980s' double-digit growth patterns, pinching profits. Newspapers are responding by administering tough cost-cutting measures.

In New England, where the country's economic engine has ground nearly to a halt and ad linage has fallen off a precipitous 20 percent, newspapers have had to make the cruelest cut of all: layoffs. Newspapers in the Sun Belt and on the West Coast, where the economy has declined more gradually, have also resorted to layoffs.

No part of the United States has escaped the downturn entirely, although the degree varies from place to place. In all regions there are instances where newspapers have frozen, or at least slowed, their hiring. Publishers are also watching their other giant cost item, newsprint, and shrinking their newsholes as ad linage diminishes.

Drooping revenues have also put a crimp in discretionary travel, as shown in attendance at the October meeting of the Associated Press Managing Editors in Dallas. About half the expected number attended, 385, compared with highs of 850 in the early 1980s, 653 in 1988 and 489 in 1989.

Run-of-paper ad linage took an 8.2-percent dive for the first three quarters of 1990 from the same period last year, according to Alex. Brown & Sons Inc., a Baltimore investment house that tracks large public media companies. Classified got bruised the worst, with a drop of 10.2 percent; local retail was next, down 7.9 percent; and national fell 6 percent.

Ad revenues also fared poorly. For the first three quarters of this year they dropped an average 2.2 percent at newspapers belonging to five of the large media companies followed by Alex. Brown & Sons, says Kenneth T. Berents, vice president/senior analyst at the firm. Berents says even if newspapers get a seasonal break with increased revenues during the holidays, the yearly tally of ad revenues is headed for a decline.

Jay Campbell, vice president/advertising for Cox Newspapers, doubts the holiday season will do much for ad revenues this year. "You're probably going to see a very difficult Christmas," says Campbell. After that, newspapers have probable increases in newsprint prices and postal rates to look forward to, he says.

If the end-of-year average does wind up a minus, it would mark the first year that income from advertising dropped industry-wide since 1970 when it dipped 0.2 percent, according to the NAB.

Berents says ailing ad revenues logically affect the market value of newspapers, and he quotes brokers at a recent National Newspaper Association convention who estimated that prices for dailies have dropped by at least 25 percent.

To add salt to the wound, newspapers are having a tougher time collecting for the ads they do get, says James Ralph, vice president of ANPA Credit Bureau Inc. "On the average," he says, "advertisers are paying three or four weeks later" than they ordinarily would, and "newspapers are losing money they would have made in bank interest."

HOW BAD IS BAD? Newspapers felt the ill winds blow more than a year ago and began to brace themselves for stormy weather by shaving expenses to ward off declining profits [**presstime**, April 1990, p. 26]. Since then, the climate has gotten even colder—and exactly when it will heat up is anyone's guess, publishers say.

NAB's "National Economic Overview," which looks at the nation's economy and its effect on advertising, stated, "We expect little or no improvement in 1991. More important, we expect no sharp upturn during the recovery period. At present, all of the economic fundamentals suggest modest growth, at best, in 1992 and beyond."

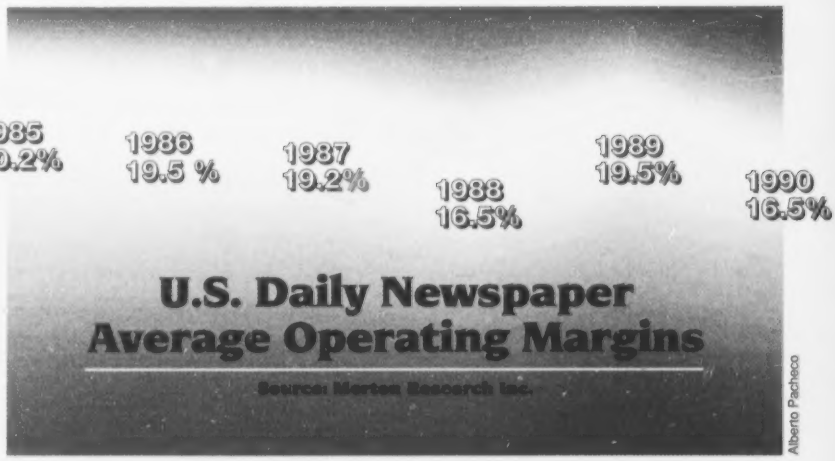
Nonetheless, the September report added, there will be an upturn, evidence of which "should become apparent in the second half of 1991, followed by further improvement in 1992." Ad revenues are projected to increase by 2 percent in 1991 and 5 percent in 1992. (See chart, p. 8.)

Contrary to analyst Berents' view, NAB foresees a very slight increase, 0.5 percent, in ad revenues for 1990. However, economists point out that this increase would amount to no growth at all in volume..

Whether this reduced opportunity for profit puts newspapers in dire straits is a matter of divergent opinion.

Quarters Profits

As advertising linage shrinks, publishers cut staff and newsholes. The economic woes are reported in most regions.



Alberto Pacheco

Capitalism thrives on growth, says Berents, and if the industry fails to sustain its momentum, the results will be debilitating. Shrinking operating margins mean cutbacks in employees, lower morale, curtailed expansion and other unpalatable consequences.

He fears the industry is faced with more than a cyclical downturn. The problems are long-term, Berents says, brought on by major changes challenging newspapers—among them more competition for the readers' time, widespread functional illiteracy, niche-marketing trends, and the indifference of many young Americans toward community affairs and politics.

At the other end of the spectrum, John Morton of the stock brokerage firm of Lynch, Jones & Ryan in Washington, D.C., debunks the fuss on Wall Street. "All that is really happening is that instead of being two or three times more profitable than most businesses, newspapers this year are reduced to being only one or two times more profitable," says Morton. "For newspapers, a recession means only that earnings may not grow and may decline, but it does not mean earnings disappear."

Morton acknowledges that the 13 publicly owned newspaper companies that provide detailed financial data reported the worst record in two decades for their second-quarter and first half of 1990. But he says, "There is nothing shabby about an average operating profit margin of 14.9 percent, even if it is down from 17.7 percent for the same period in 1989. There are lots of industries that do not see 15-percent margins in the midst of their biggest booms in history."

The actual problem the newspaper industry is facing, Morton says, is "its difficulty in meeting the level of profit expectations" established in past years. "The only real danger in this problem is that some newspapers might therefore try to do too much to shore up profitability by trimming staff, newshole and journalistic effort," he says. "Some moves in these directions may be advisable, but going even a few steps too far damages product quality—a consequence liable to far outlast the difficulties of the current recession."

NEW ENGLAND BLUES. The number of newspapers taking such steps is growing. The wave started in New England, but it is rolling over other parts of the country now.

Among New England newspapers cornered into layoffs, the New Haven (Conn.) Register let 50 workers go in two rounds of layoffs in October, leaving a staff of 404 full-time employees, says Robert M. Jelenic, president and chief executive officer of the Journal Register Co. Twenty of those let go were editorial employees, leaving 108 full-timers in the newsroom. Jelenic says a plunge in ad linage, "off by just under 20 percent," forced the layoffs.

However, the thinking of top executives about how extensive the cuts should be did not mesh. Thomas P. Geyer, who was chief executive of the Register at the time of the first round of layoffs of 19 people, protested the second round, reportedly arguing it would cut too far into the muscle of the newspaper. Jelenic dismissed Geyer Oct. 15 and executed the second round the next day.

Jelenic acknowledges that getting out a good product for the readers and advertisers while cutting costs is a "fine balancing act," but he maintains the New Haven paper "had too many people."

The Register is also saving money on newsprint because the newshole has been reduced as the ad linage has dropped, and because press spoilage is being more closely monitored. Jelenic says a smaller newshole does not translate into a disservice to readers. If the news is "packaged right" in a concise format, the reader is actually better served, he maintains.

The Register's sagging linage is typical of New England, says Jelenic: "It makes us one of the crowd."

The Valley News in Lebanon, N.H., has laid off eight employees and left vacant 10 other slots, reducing the staff from 96 to 78.

The layoffs were the first since the founding of the paper in 1952, says Publish-

Distribution of Total U.S. Daily Newspaper Advertising Expenditures

	NATIONAL			RETAIL			CLASSIFIED			TOTAL	
YEAR	$ billion	% share	% change	$ billion	% share	% change	$ billion	% share	% change	$ billion	% change
1989	3.2	10	3.7	16.9	52	4.4	12.2	38	2.8	32.4	3.8
1990*	4.2	13	5.4	17.2	53	3.0	11.1	34	(5.0)	32.5	0.5
1991*	4.3	13	2.3	17.6	53	2.3	11.3	34	1.8	33.2	2.0
1992*	4.5	13	4.7	18.4	53	4.6	11.8	34	4.4	34.8	5.0

Source: Newspaper Advertising Bureau
*forecast

er Willmott Lewis Jr. He says that when the Valley News began to feel the pinch in late 1989, it first turned to less drastic cost-saving measures. However, "starting in July or August, we couldn't find any other alternative," he adds. At that time, the New Hampshire daily paper froze the vacancies, and in early October it announced the layoffs.

Lewis doesn't perceive any hint of a turnaround in the New England economy. The mood is so dark, he says, "I haven't seen a thing yet. I'm not sure there is a tunnel, let alone a light at the end of it."

In Holyoke, Mass., Publisher Tom Schumaker of the Transcript-Telegram says a 20-percent drop in ad linage spurred layoffs of 10 employees in October. The paper has frozen 12 other positions since last year for a total reduction of 22 positions, 12 of them in the newsroom.

Schumaker calculates the staff cuts together with reductions in newshole and use of process color, as well as other cost-savings, add up to about $600,000 annually.

The Providence Journal Co. is not replacing job vacancies as quickly as it might in better times, but it has at least averted layoffs. "Luckily, we're in better shape" than some other New England papers, says James V. Wyman, executive editor of the Providence Journal and Evening Bulletin. "We're a diversified company. That helps in tough times."

OTHER REGIONAL ILLS. Farther down the Eastern seaboard, Dow Jones & Co., publisher of The Wall Street Journal, will shut its Philadelphia bureau Dec. 31. Six editorial employees will lose their jobs. The paper is also going to fold the copy desks at its Brussels and Hong Kong bureaus during the first quarter of 1991, offering jobs in New York City to copy editors who are stationed there, says Roger May, Dow Jones director of corporate relations.

May says the Journal has been "making economies" since the October 1987 stock market crash, but these and other cost savings were instituted after Dow Jones reported a 17.5-percent retreat in third-quarter profits. The Journal froze capital spending, capped the budget—including salaries—at the 1990 level, eliminated some temporary positions, reduced management bonuses and took other steps. On the revenue side of the financial equation, it announced a hike in its single-copy price from 50 cents to 75 cents, beginning this month.

In the Sun Belt, where the economic slide is generally not quite as steep, Jay Smith, publisher of the Atlanta Journal and Constitution, says, "In very rough terms, we are looking at advertising volume declines of about 10 percent from last year." The decreases have ripped into retail and classified about equally, he says.

It's a bittersweet consolation, but Smith detects a gain at least in advertising market share at a time when advertisers are spending less. He attributes the gain to healthy circulation at both papers, which grew at a clip of 9.3 percent during the six months ending Sept. 30, compared with the same period last year. "It's made us the hot medium in Atlanta," Smith says.

The Atlanta papers have been very watchful of their expenses during the past couple of years, he says, and have not had to cut staff as a result of the ad linage falloff.

Trouble has also struck in Tennessee. The Nashville Banner laid off four newsroom and three clerical employees because of flat ad revenues and because of expenses incurred in the building of a new plant. The Commercial Appeal in Memphis, buffeted by a foundering local economy, laid off 12 people and cut 20 more jobs by attrition.

Newspapers in the nation's breadbasket have a leaner ad diet these days, too. Daryl M. Hall, president and publisher of the Kearney (Neb.) Hub, says 1990 has been a "rough year" in Kansas and Nebraska, with ad linage down 5.8 percent for dailies reporting figures to the Inland Press Association.

The Hub's linage fell by 10 percent because of "cautiousness in the retail community," says Hall, even though retail sales in Kearney are up. "Buyers are probably going

'Shoe'

By Jeff MacNelly

I THINK WE'RE DEFINITELY IN A RECESSION.
WELL, CALL UP THE FEDERAL RESERVE AND SEE WHAT ALAN GREENSPAN SAYS ABOUT THAT..
I TRIED, BUT I COULDN'T GET HIM ON THE PHONE.
HE'S BEEN LAID OFF...
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to the discount stores," laments Hall. "Unfortunately, they're going to people who do well without us."

Hall says in previous years the Hub has outperformed other papers its size in linage, so he's hoping this year is "a shakedown" that brings the paper back to its previous course. He is not clamping down on costs because he expects the economic malaise to be fairly short-lived. "We're not anticipating this is going to continue," says Hall. "We're hoping things are going to turn around."

While the northern Mountain states are still straining against a two-year economic slowdown, higher oil prices are expected to inject some energy into the economy from Texas through Colorado. But so far, says John M. Roberts, publisher of The Victoria (Texas) Advocate, the ripple effect has not amounted to much. There has been a 1-percent to 2-percent pickup in Advocate ad linage this year over last, and the picture won't brighten much more, says Roberts. "We had some cause to be optimistic in the first quarter, but it turned out to be hollow."

New Mexico had managed to avoid the downward trend for a while, but signs of a weakening economy are showing up in help-wanted and real-estate linage, says Hugh C. Sarrels, operations director at the Albuquerque Journal. Meanwhile, the Journal's circulation is up. One reason for that might be that when people have to tighten their belts, they are "shopping a little wiser, and they're looking in newspapers for prices."

Even the usually robust economy of California has lost some vitality. Laura Morgan, public information supervisor at the Los Angeles Times, says ad linage has soured particularly in the last few months. Times classifieds sank by 21.5 percent in September compared with September 1989, she says. Total ROP ad volume fell 7 percent.

Facing the uncertain economy, Publisher and Chief Executive Officer David Laventhol told employees in a letter that the Times would be slower to fill vacancies and more zealous in conserving newsprint.

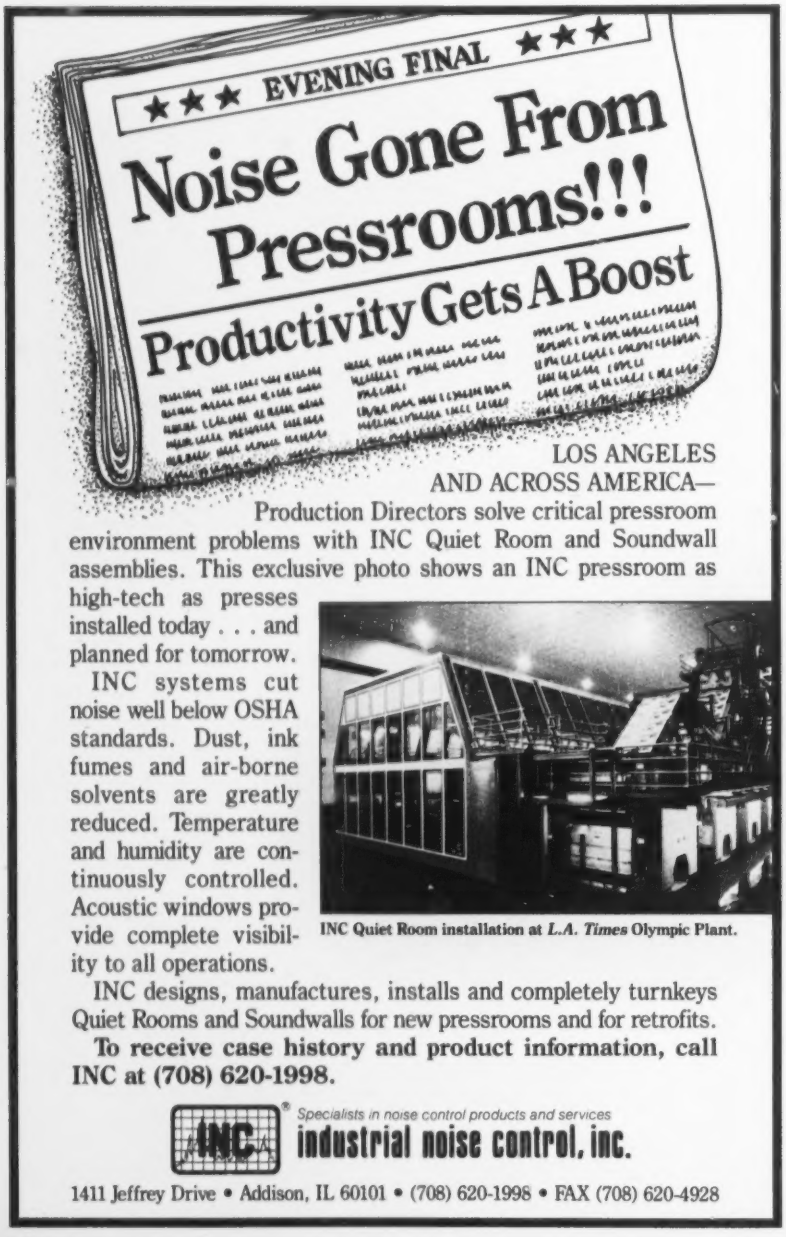
The Daily News in suburban Los Angeles went even farther, laying off 50 people, or 4 percent of its work force. "The Daily News is undergoing restructuring as a result of economic conditions facing newspapers across the country," Publisher David J. Auger said in a brief statement.

Newspapers in the Northwest have taken their licks, too, with an overall 1.7 percent decline in ad linage for the year from September 1989 to September 1990, according to statistics gathered by the Pacific Northwest Newspaper Association.

"There is a mistaken notion that the Northwest is somehow isolated from the problems of the rest of the economy," says Robert J. Weil, president of Northwest Media Inc., which owns three dailies and three weeklies in Washington.

Some success stories in the state stand out in an otherwise dreary overall industry picture. Two of the dailies owned by Northwest Media saw their ad linage increase by double-digit percentages between September 1989 and September 1990. The Valley Daily News in Kent recorded a 36.7-percent increase for the month of September, and the Journal-American in Bellevue posted a 17.9 percent increase.

"Our success is a matter of looking carefully at pricing structure so we're not gouging our advertisers," says Weil. "Success isn't driven by the economy alone, but by paying attention to readers and advertisers during soft economic times." □



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Circulation rises at two-thirds of larger U.S. dailies

Sixty-seven percent of U.S. daily newspapers with circulations of 50,000 or more gained circulation over the past year, while 54 percent showed circulation growth greater than a full percent, according to an ANPA analysis of Audit Bureau of Circulations' FAS-FAX reports.

For Sunday papers with circulations of 50,000 and more, gains were achieved by an even greater percentage: 74 percent, with 66 percent of these newspapers growing more than 1 percent.

Although total U.S. daily newspaper circulation declined slightly last year, a market-by-market analysis by ANPA's Circulation and Readership Department, indicated that a significant number of dailies are growing. (See chart.) Overall, Sunday circulation has been increasing steadily since 1946 as more and more dailies have added Sunday editions.

On the downside, the number of newspapers gaining penetration—the ratio of newspaper circulation per 100 households—remained fewer than those with slipping penetration. Overall, 35 percent of daily newspapers and 42 percent of Sunday newspapers increased penetration in the primary markets.

The analysis was of circulation averages for the six months that ended Sept. 30, 1990, compared with the same period a year earlier.

Altogether, figures for 827 daily and 577 Sunday (or weekend) U.S. newspapers were studied. The analysis did not encompass newspapers that changed their frequency of publication or had substantial changes in their boundary lines or in their designated markets.

Separate analyses by other organizations of the 50 largest-circulation daily and Sunday papers showed that as was the case for the six months ending March 31, 1990, the top circulation gainers in the latest reporting period were The Atlanta Journal and The Atlanta Constitution, The Tampa Tribune and the Los Angeles Times [presstime, June, 1990, p. 76].

The Atlanta papers' combined daily circulation increased 8.1 percent, as did the Tribune's. On Sunday, the Tribune outpaced the Journal and Constitution papers in Sunday circulation, growing 6.2 percent compared with Atlanta's 4.4 percent.

The Times' Sunday circulation gain of 7.5 percent outstripped the Tampa and Atlanta increases. The Times' daily circulation grew 7.8 percent. □

Changes in U.S. daily newspaper penetration and circulation (between Sept. 30, 1989, and Sept. 30, 1990)

Daily circulation (and number of papers)		Increased penetration	Decreased penetration	Increased circulation	Decreased circulation
Under 10,000	(124)	38 (31%)[1]	85 (69%)	59 (48%)	65 (52%)
10,000-49,999	(505)	179 (35%)[1]	325 (65%)	264 (52%)	241 (48%)
50,000-99,999	(109)	41 (38%)	68 (62%)	74 (68%)	35 (32%)
100,000 and over	(89)	32 (36%)	57 (64%)	58 (65%)	31 (35%)
Total:	(827)	290 (35%)	535 (65%)	455 (55%)	372 (45%)
Sunday circulation (and number of papers)					
Under 10,000	(29)	12 (41%)	17 (59%)	12 (41%)	17 (59%)
10,000-49,999	(336)	139 (41%)	197 (59%)	217 (65%)	119 (35%)
50,000-99,999	(94)	47 (50%)[1]	46 (49%)	70 (74%)[1]	23 (25%)
100,000 and over	(118)	44 (37%)	74 (63%)	87 (74%)	31 (36%)
Total:	(577)	242 (42%)	334 (58%)	386 (67%)	190 (33%)

[1]One paper in this circulation category that no change.
Source: ANPA analysis of data reported by the Audit Bureau of Circulations

ABC grants exception to Philadelphia Inquirer; board members elected

The board of the Audit Bureau of Circulations overruled a staff decision and granted an exemption allowing The Philadelphia Inquirer to count gains achieved by a suburban circulation drive.

Jimmy E. Manis

Also at its Nov. 10 meeting in Chicago, the board elected one new member and re-elected three others to represent the ABC Daily Newspaper Division.

The dispute with the Inquirer centered on whether the paper could count the circulation gains it was making on a special Thursday-Friday-Sunday package for subscriptions and single-copy sales in the Pennsylvania suburbs of Philadelphia. The so-called "Daily Penetration Plan," which was launched in September 1989, replaced Sunday-only home delivery in those areas. A similar package covering editions published Wednesday through Sunday has been in effect in Philadelphia's New Jersey suburbs since 1985.

ABC staff said the Inquirer's stated gains could be counted only if there was 100-percent delivery under the DPP, not the 88 percent the Inquirer was reporting. If the staff ruling had stood, it would have reduced Inquirer circulation numbers by about 39,000.

After an appeal by Publisher Robert J. Hall, the ABC board agreed with the staff interpretation but then granted the Inquirer an exemption, according to the newspaper. An ABC spokesman declined to comment on the case.

Newly elected to the ABC board is Jimmy E. Manis, vice president and general manager of The Pittsburgh Press, who will represent daily newspapers published in the Eastern Time Zone. Manis replaces Thomas B. Sherrill, vice president/marketing of The Columbus (Ohio) Dispatch, who did not seek re-election.

Re-elected were William C. Green Jr., publisher of The Huntsville (Ala.) Times, representing daily newspapers published in the Central Time Zone; R. David Threshie, publisher of The Orange County (Calif.) Register, representing the Mountain and Pacific time zones; and Russell A. Mills, president of Southam Newspapers of Toronto, representing Canadian daily newspapers.

The board also unanimously approved a rule change for all U.S. and Canadian publications that are also distributed internationally. Effective immediately, the change states that average international circulation cannot exceed 25 percent of total distribution and still be counted by ABC for any six-month auditing period. Until the change, the rule did not state any specific time period, said Jacqueline J. Regel, ABC communications specialist. □

NOTE

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